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A TREATISE

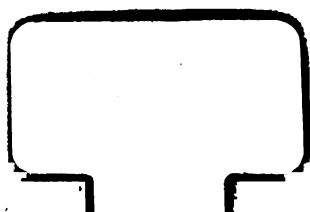
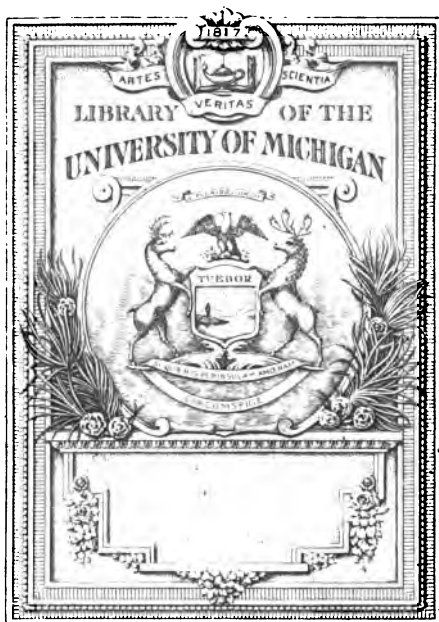
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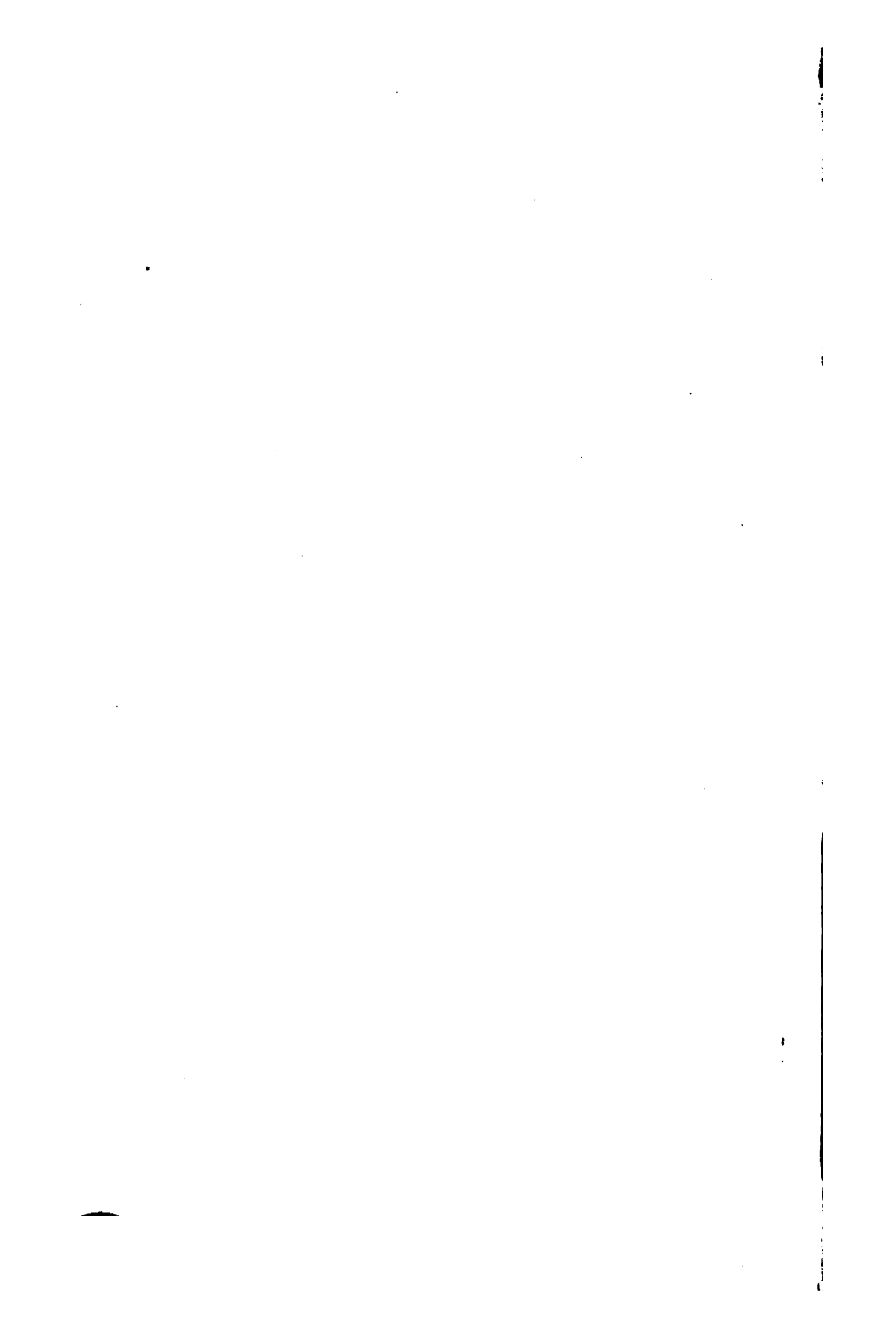


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A TREATISE ON  
MORTGAGE INVESTMENTS.



A TREATISE  
ON  
Mortgage Investments.

APPLICABLE TO

49466

INVESTMENTS GENERALLY  
IN  
FARM AND CITY PROPERTY  
MORTGAGES,

AND

Showing how to make an intelligent and judicious selection  
of such securities, and attend to the details  
of such investments.

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BY

EDWARD N. DARROW,  
Minneapolis, Minn.

U. S. A.

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MINNEAPOLIS.

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By EDWARD N. DARROW.

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## PREFACE.

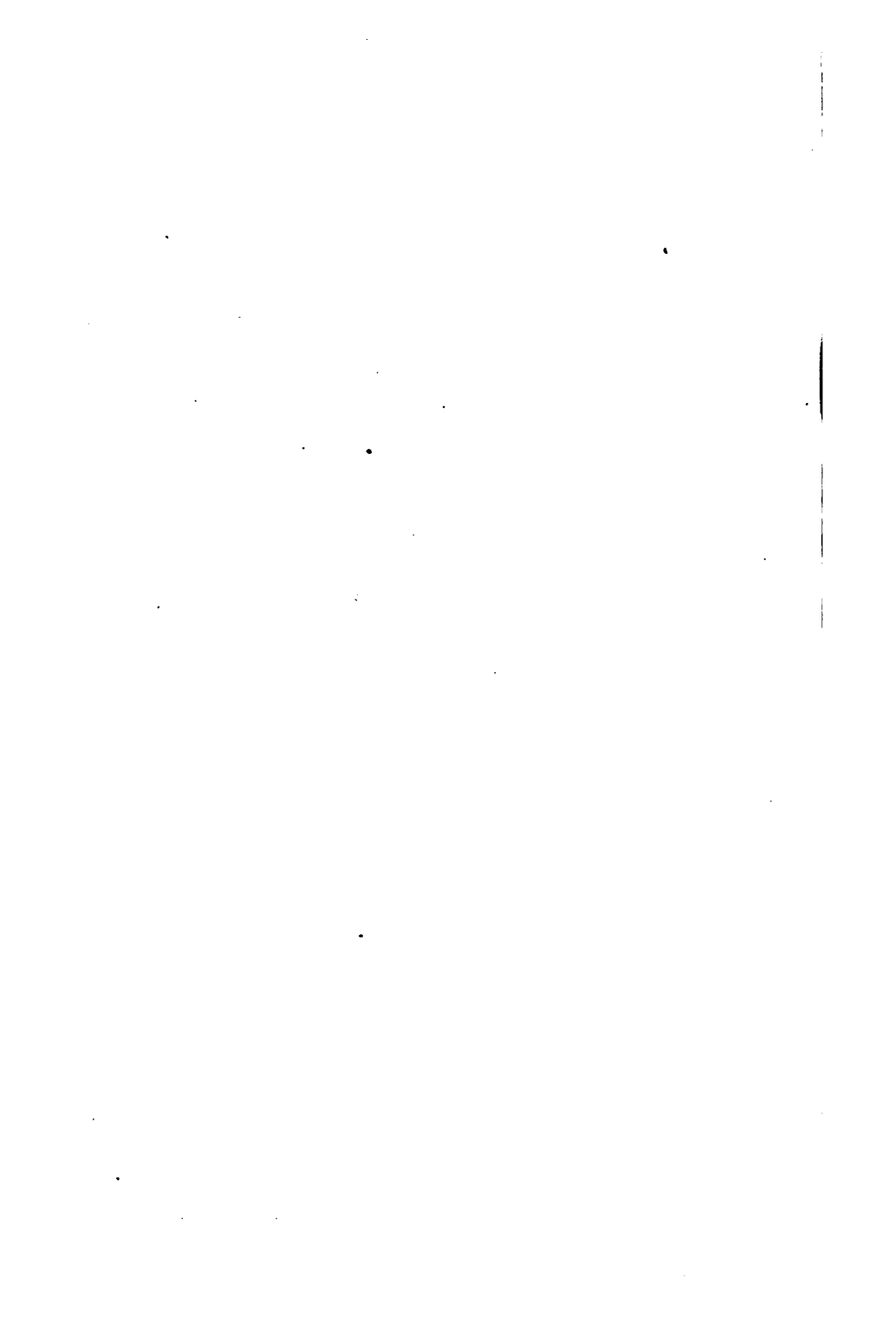


THE object of this work is to call the attention of investors in mortgage securities generally to the points to be remembered, the means to be employed, and the things to be done and investigated, relative to making an intelligent and judicious selection for themselves of any such securities, in which they may be importuned to invest. To that end every effort has been made to present the same as fully and yet as briefly, as is consistent with clearness and accuracy, so that the time of the business man need not be unnecessarily taken up, yet so that those not so well versed in business affairs may read and understand. It is believed that any shortcomings will be pardoned, on account of the usefulness of the work, if indeed it cannot be said its necessity, and will be considered by all more than counterbalanced by the advantages it affords. Hoping, therefore, it will meet with a favorable consideration and be of practical use commensurate with the effort bestowed upon it, the same is submitted to the mortgage investing public.

Minneapolis, Minn., Feb. 29, 1892.

E. N. D.





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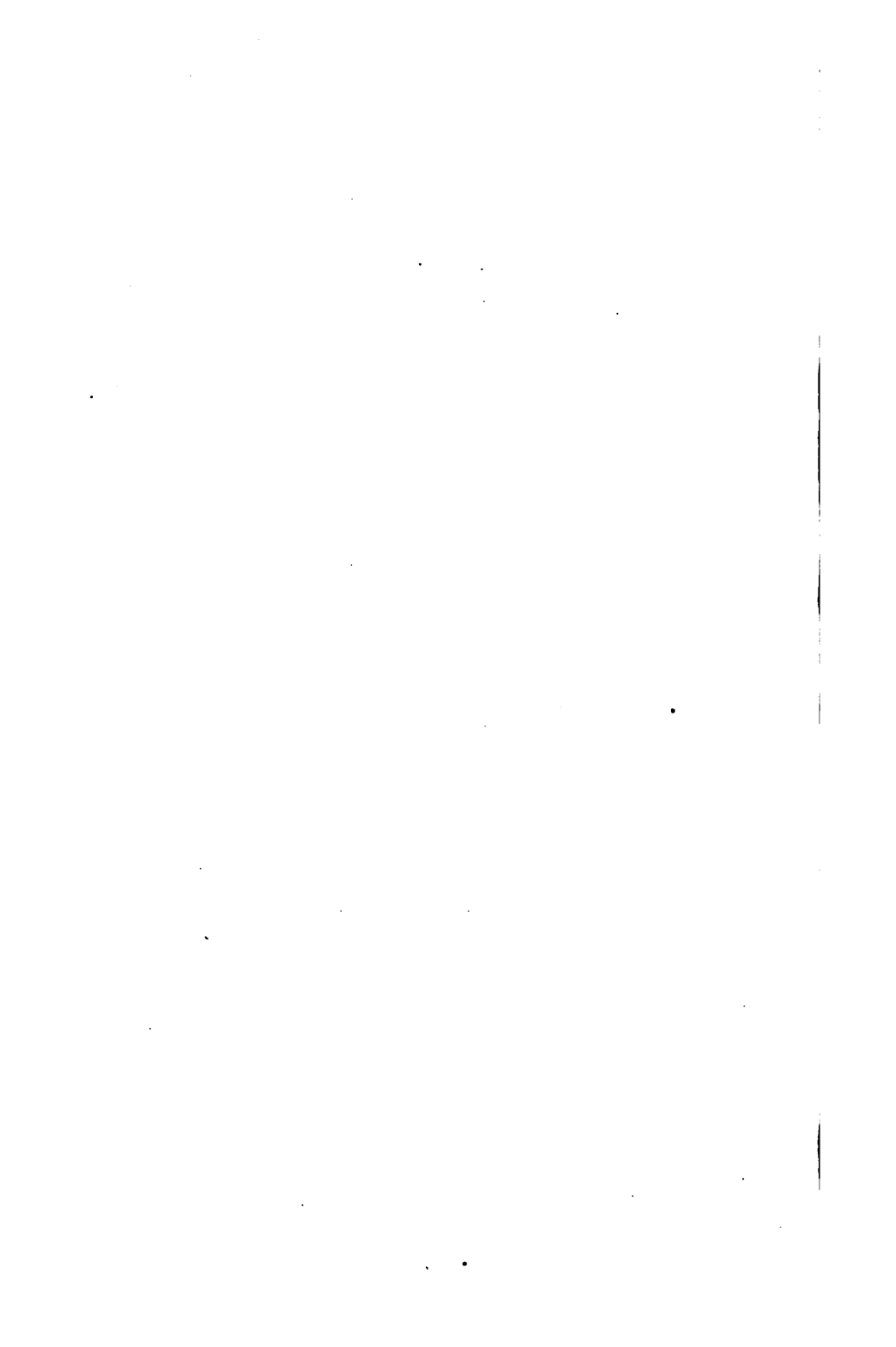
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## INTRODUCTION.



INASMUCH as the security for a mortgage investment made in the immediate locality where the investor resides is generally, or at least always can be, subjected to his personal examination, to such an investor some of the suggestions contained in this work will probably be thought of little value; but for those who are, and others who may be, principally for the purpose of obtaining a higher rate of interest on their money, seeking an investment in such securities of another locality, in many cases hundreds and thousands of miles distant from where such investors reside, it is believed that this book contains many suggestions which will be found of great advantage and practical utility. In stating, principally for the benefit of non-resident investors, what information is desirable, and how to obtain it, relative to the distant security in which they are about to invest, it is not intended to find fault with, nor yet praise, any of the different methods in vogue with the many persons, firms and corporations, who are now, or may hereafter be, engaged in the business of selling and negotiating such mortgage securities, either with home or non-resident investors; but to point out what knowledge about the investment experience has shown is an essential element towards enabling the non-resident investor to make an intelligent and judicious selection of his own security; and it should always be borne in mind, that the suggestions offered are based upon the presumption, that these statements of fact affecting the security will be obtained through reliable sources, establishing upon their face their truthfulness and accuracy, and that either the size of the investment, or the distance to be travelled, would make the transaction unprofitable, if the investor attempted a personal examination of the security, either himself or by sending a trusted representative.



## CHAPTER I.

### THE BUSINESS.

- § 1. Development and demand.
- § 2. Primitive methods.
- § 3. Principal inducement.
- § 4. Investment brokers.
- § 5. The list and its functions.
- § 6. Contents of list.
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§ 1. Development and demand. As the various sections of the country have been settled up and developed, the demand for foreign capital therein to add improvements and establish and carry on legitimate enterprises, has in the main kept well apace with the common prosperity, at least up to the period when that locality, with its cultivated farms, its factories, mercantile industries and financial pursuits, has in turn become, so to speak, more than self-sustaining, and a seeker after foreign investments offering a better rate of interest on similar security than could be obtained at home. As a general rule these investments of foreign capital have been secured by good first mortgages on improved real estate constantly increasing in value as the locality in which it is situated increases in population and improvements.

§ 2. Primitive methods. The primitive mode of procedure, for a person living in one locality and desiring to borrow money on real estate security from a person living in another locality, unquestionably was, for such intending borrower to furnish the person from whom he sought the loan, a statement, either verbal or written, showing the amount of money wanted, the rate of interest to be paid therefor, and the security he had to offer, adding doubtless



the names of some neighbors and local acquaintances, to whom he referred as to his standing in the community where he lived. Perhaps the borrower had been recommended to address, or had formerly been acquainted with the person to whom he has thus applied for a loan.

§ 3. **Principal inducement.** It is certain, that one of the principal inducements leading to the consummation of this proposed transaction, and one that will continue to be the principal inducement leading to the consummation of others of a similar kind, was the offer and willingness on the part of the borrower to pay a higher rate of interest for the money than the lender could get for the same if invested at home in like security, and an equal willingness on the part of the investor to receive and profit by the higher rate of interest offered.

§ 4. **Investment brokers.** Because the demand for foreign capital and the willingness of non-resident investors to supply it has increased, and because the borrowers who desire such capital usually have their own avocations to which their time and energy are devoted, the successful transaction of this business has led to the establishing of what may properly be called mortgage investment brokers, through whom, for a small per centage on the amount borrowed, usually paid by the borrower, all documents relating to the loan reach the investor, and all business relating thereto is transacted. Competition in this business, as in all others, where a fair return is offered for the money invested, has caused large aggregations of capital to be employed therein, so that when what is considered a good loan is offered, the money can be furnished at once, and the business thus be secured and controlled.

§ 5. The list and its functions. When several such investments have been made, the institution owning and holding such mortgages publishes and circulates among its clients and patrons what would be called simply a list of the securities offered for sale, usually at their face and accrued interest,—that is, strictly speaking, at their present worth. The only information affecting any single security contained in this list, is the name of the borrower, without any address as a rule, the amount of the loan, its date when made and due, or term of years it runs, and rate of interest it draws; what is called the value of the security, and if a farm loan, possibly the number of acres covered by the mortgage, is given and the county where situated; and if it is a city loan possibly the lot and block of the addition in which it is located are given, and the name of the State, but very seldom is the legal description of the security set out; probably a serial number will be given to each loan offered for the convenience of both investor and broker in designating any security that may be selected. This list usually informs the investor how and where to advise of any selection he may make among the different investments therein offered, how and where to remit and pay therefor, and offers such securities subject to previous sale. It may also state how the loans offered have been appraised and selected by the owners thereof, and contain some information relative to debenture bonds and offerings thereof; it may also give information about other investments, and will probably state where and how the principal and interest on the mortgages offered are payable, and contain more or less advertising matter.

§. 6. Contents of list. This list may or may not contain a proposition on the part of the publisher to

guarantee any mortgage selected and paid for, and whether it does or does not, in all fairness, taking into consideration the very meager information it affords an investor in making an intelligent and judicious selection therefrom, it certainly should contain the proposition, that, if any mortgage is selected and paid for, and the same upon receipt of the original documents relating thereto, and upon examination thereof, proves unsatisfactory, either the money paid therefor will be promptly refunded on return of the papers, or the investor will be allowed to make further selections till he is perfectly satisfied, whichever he pleases. If the list does not contain this last proposition and an investment is selected therefrom and paid for, one of two things is absolutely certain, either the investor is relying entirely upon the guaranty, if one is offered, or without an absolute guaranty, he is selecting and making an investment without sufficient knowledge to enable him to determine whether it is likely to prove good or bad.

§. 7. What to do. On receipt of a list of mortgage securities not containing this last proposition, unless an investor is relying entirely upon the guaranty (and this subject is considered of enough importance to be treated in a separate chapter) instead of selecting therefrom and paying for any mortgage so listed, it would seem the proper thing first to ask for the application, appraisals, reports and other documents relating to any security, which from the list an investor may think will prove satisfactory, and if after an examination of these documents he desires further information in regard to the security before investing therein, doubtless those sending him the former papers will gladly undertake to secure for him from reliable sources such further information as he may indicate

is desired. Certainly it is time enough to select and pay for the security when the evidence submitted satisfies him that the investment will prove a desirable one. In case he desires to secure this information himself, as can readily be done in these days of fast mails and the telegraph, it will be attempted in the following chapters to outline what knowledge is desirable and how to obtain and verify it.

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### THE APPLICATION.

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§ 8. How received. To all intents and purposes, if the subsequent investigations and proceedings are properly carried out, it is largely immaterial whether the application for a loan reaches the investor directly from the borrower, or through a broker, or whether it is asked for because of a selection of security from a list. The object to be attained thereby is in all cases the same, information about the borrower, the amount he wants, and the security and rate he has to offer therefor. It will not be improper, however, at this point to suggest that nearly all applications will reach the investor through one of the two last named channels, as this would be in the natural course of business, and is also as a rule preferred

because both the broker and publisher of the list are usually located, or have an office or a trusted representative, in the locality of the investment, and are thus prepared to attend to the details of an investment, such as the collection of principal and interest, and seeing that the taxes and insurance are promptly paid, etc., without expense to the investor, and because, having a trusted representative on the ground, all information about the borrower and his security can be more readily and promptly obtained, and as a rule verified, and hence relied upon.

§ 9. **General statements.** Nearly all loan applications provide for a general statement of the essential facts relative to the borrower and his security, about which a non-resident investor would naturally desire information; though some new features deemed of no small importance have been suggested by the writer. This loan application should specify the amount wanted, the rate to be paid therefor, the term of the loan, the full name, occupation and address of the borrower, and whether single or married, and if married, the full names of both husband and wife; it should give a full legal description of the security offered, as the same appears in the title papers, and show in whose name the legal title stands of record, and specify that the loan desired shall be a first mortgage.

§ 10. **The photograph.** Attached to the application and forming a part thereof should appear a photographic view of the premises, certified to on the application by the artist taking the same, showing when he took it, so that it may be seen at once to be a late photograph of the identical premises on which the loan is sought; for it is a well known fact that great progress has been made in the photographic art, making the production of a picture of any object

a comparatively simple and inexpensive matter, so much so at least that a large number of insurance companies frequently ask for photographs of buildings to determine the desirability of their risks. Then why should not this principle be applied to mortgage loans, where a much larger aggregation of capital is at stake? The benefits to be derived therefrom will be appreciated by investors generally at once, and no doubt many of the more judicious would gladly pay the expense of obtaining such a view, for the advantages it would afford them in making an intelligent selection of their security, rather than invest without it.

§. 11. **The buildings.** In addition to the photograph there should be furnished a detailed outline of the buildings, giving dimensions, of what material, how and when built, the number of rooms and how finished, and any additions should be described fully, giving dimensions. The application should also show whether the building is provided with all modern conveniences, if a dwelling; the kind of foundation and size of basement or cellar; whether the buildings have been removed, rebuilt or repaired, and such other details, including sketches, not necessarily drawn to a scale, but with measurements indicated thereon in feet, of the basement and other floor plans, marking openings for doors, windows, etc., as would tend to give the investor as good an idea of the interior as the photograph furnishes him of the exterior.

§ 12. **City property.** If the property is located in a city, the application should show the size of the lot, how located with reference to streets and alleys, the street number of the building and the name of the street on which it stands, and whether the land

is above or below the grade of the street; whether the building and every means of access to it stand wholly on the land, or are used in common with the adjoining buildings; it should also state the distance to street cars, to railroad tracks, to depots and to the business center of the place; the character of the street improvements in front of the premises, and the character of the surrounding property, giving the population of the city and its tax rate on real property.

§ 13. Farm property. If the security is located in the country the application should show the total number of acres mortgaged, how many acres are under plough, in timber, in meadow, swampy and marshy, how watered and character of the soil; how many acres are fenced and the kind of fence; how many acres cannot be profitably cultivated and why not; it should also state the distance to the nearest town, giving its name and population, and the distance to the nearest railroad station, its name and population; the principal products of the farm, and the amount of each kind produced during the last year; the cash value of the separate tracts of land; the kinds of crop and the number of acres of each kind being cultivated during the present year, and such further information as may be peculiarly adaptable to any particular case.

§ 14. Other general statements. And generally, the application should show when the buildings were erected and when the last improvements were made, and whether all bills for labor and material have been paid, and if not, the name and address of each person to whom the applicant is indebted, should be stated, giving the amounts due each. All barns, granaries and other buildings should be fully described, giv-



ing dimensions and values. It should show by whom and for what purposes the premises are occupied, giving names of tenants and rentals paid by each, if rented; how long the borrower has owned the premises, and whether he erected the buildings, and if so what they cost; and if he bought the premises, when, how much he paid for them in cash, and how much in trade; whether it is the borrower's homestead, and if for rent and not rented, give the reasons why unoccupied. It should also state the assessed value of the premises for taxable purposes, and state on what basis such assessments are made; whether the title is in fee simple and unclouded; what mortgages are already on the premises, if any, giving name and address of the mortgagee; whether any taxes are unpaid, and if so, for what years and why; it is also advisable to know the value of other real estate and all personal property owned by the applicant, and whether clear or mortgaged, as well as the purpose for which he intends to use the money borrowed. These statements of fact should be full and complete, and should be duly sworn to by the applicant. A hand map or "bird's eye" view of the town or city, with the location of the security, the business center of the city, its principal streets and public buildings, plainly marked thereon, should accompany the application; the character of the surrounding property should be indicated on the map, and any further information relating to any particular case should be set forth.

§ 15. Appraisals and references. The application will usually contain certificates of appraisal made by two or more parties, giving their names and addresses, and certifying that they are acquainted with the particular premises in question, and with

local real estate values in general; such appraisers should fix a separate value on the land and on the buildings, and inasmuch as these appraisals are apt to be obtained through the solicitation of the borrower, neither he nor the appraisers can offer any objection whatever to an investor seeking to verify such appraisals from other sources. The application will also doubtless contain the names and addresses of several persons to whom the applicant refers as to his standing in the community generally, and perhaps also a diagram of the security.

§ 16. **How to verify.** Having stated what information is desirable, the next step will be to show how to verify it; for with such a complete application the investor is able therefrom to determine whether the investment is likely to prove a satisfactory one on investigation.

§ 17. **First method.** First then, the very best way for an investor to verify this information is to make a personal examination of the premises, and in case he does, it is also advisable that he should make a complete memorandum of the results of his investigation, and attach the same to the application for future reference.

§ 18. **Second method.** Second, the next best way is for the investor to cause the examination to be made by a trusted representative in his own employ, if he cannot investigate it himself, and such representative should furnish a full detailed report of the results of his investigation, which should be certified to by him, and likewise attached to the application for future reference.

§ 19. **Third method.** Third, probably the next best way is that the broker submitting the application should himself have made and certified to the

results of such personal investigation, or should have caused such examination to have been made and properly certified to by a trusted and salaried representative in his employ, in either of which cases a detailed report of the results of such examination properly certified to should be attached to the application when received.

§ 20. **Some facts.** Then if the borrower furnishes references, and no evidence is attached to the application showing that they have been asked and have given their opinion of the applicant and his standing, the investor should write to them himself; it is very strange that a business transaction so well begun should be left only half done. Then again, if the applicant has allowed back taxes to accumulate against his property, unless he can give good reasons therefor, it is only fair to presume that he will prove equally as slow in paying his interest and principal.

§ 21. **Comparison. Architect.** It is probably impracticable, as a general thing, to verify the information by either of the first two methods suggested, in many instances, on account of the expense and distance to be traveled, and if the information is not verified as set forth in the third method, or if it is, and the investor desires again to confirm it, it is suggested that he take the map, showing the location of the security with reference to the business centre of the city and its principal streets, take into consideration the population of the town, if the investment is on city property, and if on farm property, take into consideration its distance from the nearest town and railroad station, and the population of the town and character of the surrounding country; then examine the photograph, the sketch of basement and floor plans, and remember the written details

about the improvements; having all these thoroughly fixed in his mind, the investor should then make a mental comparison of the same with similar buildings, similarly located, in his own vicinity, of which he does know the value; and if he is not able then to satisfy himself, he can submit the photograph, the sketch of basement and floor plans and written details about the buildings to his own builder or architect, and get his opinion; if he is a competent and practical man in his profession, he will take into consideration the difference in the cost of material and labor in the various sections of the country, and on a careful examination of the evidences thus submitted to him, he will be able to give the investor a very approximate value of the improvements.

§ 22. **Comparison. Attorney.** Having thus satisfied himself as to the buildings, if he desires to investigate further as to the value of the real estate, he can compare it mentally with similar real estate, similarly located in his own vicinity, of which he does know the value, and if not satisfied then he can ask his bank for their "Banker's Directory." In this he will find a list of "bank attorneys," or "commercial lawyers." If the investment is a city loan, take the name and address of the attorney given for that city, and if a farm loan take the name and address of the attorney given at the nearest banking town to the security; and if an investor cannot find a "Banker's Directory" conveniently, he can call on his own attorney and get the name and address of his attorney's correspondent in the town he desires to write to; or better yet, he can have his own attorney conduct the business for him. In any event pay the attorney whose services are employed, and pay the architect or builder for his opinion; never expect to

get something for nothing, for if you do, it is almost certain that you will find out when it is too late, that the other fellow got something and you got nothing.

§ 23. **Verified by attorney.** The investor or his attorney can quickly ascertain from the local bank attorney, whether he is acquainted with the security described; if he is acquainted with the applicant, and how long he has known him, and what his reputation is as to sobriety, honesty and promptness in meeting his obligations, and can also find out the value of the real estate and buildings, and have the same re-appraised; and better still and probably quicker, the investor can forward to the attorney the application, and if the information and facts are as stated, get the same fully verified and certified to.

§ 24. **Rental value.** All improved farm and city property has a value as an investment directly proportionate to the net annual income it will produce. This return on the investment is generally called rental, and as this income increases or decreases, in the same direct ratio, as a general thing, will the market value of the premises producing it be found to fluctuate. It, hence, becomes almost if not quite as important for an investor to know and have verified the income producing capacity of his security, as to know its value and have that verified. Then too, if an investor knows what annual income the premises will produce, from this basis he can arrive at a reasonably approximate value of the security, at least during the period for which such rental is assured. It is, therefore, suggested that the investor compare the rental stated in the application with the income derived from similar premises, similarly located in his own neighborhood, and if no satisfactory conclusion can be arrived at in this manner, then have the at-

torney who verifies the land values also ascertain and furnish full information on this point too.

§ 25. Uncertain rentals. It is principally from an income producing standpoint that advances of 40 per cent to 50 per cent, of the appraised value should not, as a rule, be made by investors on manufacturing plants, large and costly residences, second class hotels, etc., without personal bonds and guaranties in addition to the security, because, if by any chance the property is thrown upon their hands, they cannot realize an annual income therefrom sufficient to pay interest charges, taxes, etc., and consequently the price at which they could sell without an actual loss must be constantly raised, whereas, if the security had been a store building, a modest little home, an improved farm, a tenement row, or a modern flat, properly selected, it would as a rule from the annual rental more than cancel all interest and other charges, and consequently the price at which the security could be disposed of without a loss could be constantly lowered, if desired, till a purchaser was found.

§ 26. Tenants. Then again, unquestionably hundred of tenants in most any locality can be found for a well located store to one for a manufacturing plant, and besides every investor as well as his representatives know how to rent a store, where but few understand manufacturing. Thousands rent modest homes and improved farms, tenements and flats, where scarcely a tenant can be found for a large and costly residence, principally because, if a person is financially able to rent such a property at a rental any where near proportionate to its value and cost, he is able to and as a rule does own such a home himself. Hence, a careful investor examines the improvements with two objects in view: first to estab-

lish their actual value; and second, to ascertain their rental value; and he accordingly selects an investment with such improvements as make the security rentable by nearly all classes of people, instead of selecting one where the nature of the buildings limits him to but a few, and in determining this rental value he must give due consideration to the character of the surrounding property. An improved piece of real estate which produces an annual income of \$1,000 will generally be considered, from an investment standpoint, as worth from \$10,000 to \$15,000 and possibly more, according to what rate of interest money is worth, and also in proportion as this income is assured or is likely to increase on account of the growth and development of the locality where the premises are situated.

§ 27. Essential elements. Three essential elements are, therefore, necessary to a safe mortgage investment: A satisfactorily established value of the land; a like value of the improvements; and a reasonable certainty of the income producing capacity of the security; and when to these is added the further feature, that the borrower is a person enjoying a reputation among those who know him of being honest, sober, industrious and economical, and is said to meet his obligations promptly as they mature, on such a mortgage security the unqualified payment of both principal and interest can be safely guaranteed by those negotiating it, and the same can be as safely taken by an investor without a guaranty, because those securities which cannot be safely guaranteed cannot be invested in with any more safety, as it is only a question of the amount of unsafe guaranteed securities, which will render the guaranty absolutely worthless.

§ 28. **Certified copies.** It is not necessary that the application and other documents at first received from either a broker or the publisher of a list of securities should be the original papers; duly certified copies, which can be retained and compared, if desired, with the originals, received when the investment is actually made, will generally prove equally satisfactory. It is quite certain that if non-resident investors would select their distant investments in improved mortgage securities as intelligently and judiciously as has been suggested, and afterward business or pleasure should call them to the locality of their investment, even though they had never been there before, nine out of every ten would recognize their security when they saw it for the first time; whereas, according to the manner in which these investments have been selected in the past, it is perfectly safe to say not one in ten would recognize his security when he saw it under like circumstances.

§ 29. **Vacant property and foreclosure.** With reference to mortgage investments on vacant and unoccupied real estate security, many of the foregoing suggestions are applicable. The value of vacant real estate should be conservatively and carefully ascertained, and these values satisfactorily verified, and not to exceed  $33\frac{1}{3}$  per cent to 40 per cent of such conservative values should be advanced thereon as a general rule, because in many of the states, if foreclosure becomes necessary, the owner is allowed one year in which to redeem, and during this period interest has accumulated, costs have been added, if foreclosed, and further time will doubtless be necessary before the land can be disposed of; and in the meantime the security is unproductive, and some allowance should be made for unexpected depreciation



in values; whereas, with improved security judiciously selected, on coming into possession by a possible foreclosure, it may become at once, if properly handled, productive of an income at least as large, not larger, than the interest and other charges. It is not intended to give any consideration to second mortgages whatever, further than to suggest that as a general thing they should be left severely alone; of course there are exceptions, but it is believed they are very rare indeed.

## CHAPTER III.

### DEBENTURES.

- § 30. Definition,
- § 31. Illustration.
- § 32. Desirability.
- § 33. Abuse.
- § 34. Securities.
- § 35. Trust Company.
- § 36. Legislature.
- § 37. Papers to deposit.
- § 38. How to examine.
- § 39. Careless investments.
- § 40. Comparison.
- § 41. Other bonds, etc.
- § 42. Conditions.
- § 43. When desirable.
- § 44. Investigation.
- § 45. Speculation.

§ 30. Definition. As many debenture bonds are secured in the main by trust deposits of farm and city property mortgages, they are entitled to consideration in a work purporting to treat of such mortgage securities. The term debenture as applied to this class of investments answers more readily to the English law definition thereof than the American; in the former it is said to be "an instrument in writing, generally under seal, creating a definite charge on a definite or indefinite fund or subject of property, payable to a given person, etc., and constituting one of a series of similar instruments." For the benefit of those who will not fully appreciate the breadth and scope of this definition, an effort will be made to give a simplified illustration of a debenture bond.

§ 31. Illustration. Suppose Richard Doe gave his note to John Smith for \$1,000 due in five years, with semi-annual interest coupons attached for interest at

6 per cent per annum; suppose too that Richard Doe wrote across the face of his note that he had deposited a first mortgage of \$1,000 with the Brown Trust Co. to be held by it in trust to secure his note to Smith, and Doe agreed that the proceeds of the mortgage might be applied to the payment of his note to Smith if he (Doe) did not otherwise pay it; and also suppose that the Brown Trust Co. on the back of Doe's note certified that it held such a mortgage to secure the payment of that note. Stripped of its legal verbiage and forms, its serial features and the right to withdraw the security and substitute another, seals, etc., Richard Doe has issued a debenture bond, except that such bonds are usually payable to bearer, and provide for a registration which prevents their loss by theft, etc. In other words, a debenture bond is usually one of a series of a corporation's promises to pay, secured by mortgage and other securities, deposited with some third party, who thereon certifies that he holds such securities for the purposes recited in the corporation's promises. Debentures may be issued in series of any amount, but usually are not issued in series of less than \$25,000.

§ 32. Desirability. When the mortgage securities so deposited in trust to secure an issue of debenture bonds are first mortgages judiciously and intelligently selected, and the bonds are properly issued, such bonds offer to investors a very compact and desirable form of investment, as there is but one instrument to be cared for, and this can be duly registered. This method also affords to those institutions not authorized to take real estate security directly, and to those investing trust funds, a very desirable and safe form of investment; but generally the rate of interest received on this class of investments is slightly

lower than when the investment is made by taking the mortgage security directly, as the issue of a series of debentures is necessarily attended with some expense, and those issuing the same expect to make a reasonable profit thereby.

§. 33 Abuse. It is to be seriously regretted that some mortgage companies, under an extravagant and reckless management, have issued and negotiated their debenture bonds, secured by trust deposits of injudiciously if not rashly selected mortgage and other securities, and by the disaster which necessarily follows in the wake of such unbusiness-like, if not unpardonable transactions, have brought discredit, and sometimes contempt, upon two of the most splendid financial words of our language, so full of meaning and significance, "Debenture" and "Trust."

§ 34. Securities. It is about time that corporations making use of two such splendid words, and justly and creditably entitled so to do, should put forth their utmost efforts to establish them again in the position of confidence and respect to which they are entitled and justly belong in the financial world and with the investing public. No mortgage company should issue debentures and secure them by a trust deposit of injudiciously selected mortgage or other securities, which it has first offered to mortgage investors and been unable thus to dispose of; neither should debentures be secured by so called second mortgage commission notes, which notes not unfrequently contain a portion of the interest that ought to belong to the first mortgage note properly; neither should debentures be secured by mortgages on lease-hold estates; nor by mortgages on vacant lands and lots entirely, unless very carefully and very conservatively selected, and neither should any

such mortgage securities as just above mentioned be sandwiched in among other good securities, which are being used as a basis for debentures.

§ 35. Trust company. The first thing which will suggest itself to a careful person is, that the trust company, enjoying as it does the confidence of the public, and being required by the nature of the transaction to certify to the debenture bonds, is in a position to aid very materially towards the restoration of these two words, "debenture" and "trust," to their proper position in the public confidence, for the trust company can insist upon inserting in its certificate on the bonds exactly the nature and character of the securities it does hold, and when any are withdrawn, by the exercise of a little care and investigation, can see to it that what is substituted is of an equal if not a higher grade. This is one remedy which has suggested itself to overcome what has been in some cases a gigantic wrong if not an outrage upon unsuspecting investors.

§ 36. Legislature. Doubtless it is based upon the right of the State to protect the public health, that various legislatures have enacted laws, and the various courts have sustained them, to the effect that the manufacturer of a baking powder containing alum shall plainly label the product, "this powder contains alum." Reasoning in this manner it would certainly seem that the State, by its legislature, on the ground of protection to its citizens, if not on the ground of public morals, ought to enact laws, and courts sustain them, compelling the manufacturer of debenture bonds to label the product in broad, plain letters, "Debenture bond, secured by unsalable mortgages," or "Debenture bond, secured by second mortgages," or "Debenture bond, secured by lease-hold mortgages,"

or "Debenture bond, secured by vacant property mortgages," or "Debenture bond, secured by improved first mortgages," according to the nature of the security deposited. If some such method as this was adopted, investors could more readily distinguish between the good and the bad, and could tell on examination of the bond whether an investment therein would be likely to prove satisfactory, if they went to the trouble and expense of examining the securities, as every debenture bond holder is supposed to have the right to do.

§ 37. **Papers to deposit.** Those issuing debenture bonds on mortgage investments should see to it that every original document, relating to a real estate mortgage deposited as security for such bonds, is placed in the hands of the trustee, and that sufficient information in regard to every mortgage so deposited, and unquestionable verification thereof, are there on file, so that after a debenture bond holder has examined all the mortgages deposited and the documents relating thereto, either for himself alone, or as the representative of a number of bond holders, he could confidently select from among them a mortgage investment with his eyes shut, and confidently feel that he had made an intelligent and judicious selection.

§ 38. **How to examine.** It is not intended to consider debenture bonds secured by any other trust deposits than mortgage securities. A bond holder being entitled to investigate the securities deposited, and having obtained access thereto, it is suggested that his examination thereof be conducted after the manner hereinbefore outlined with reference to direct mortgage investments. No one can object to this investigation being made before investing in

the bonds, and in fact that is the proper time to make it; and a number of bond purchasers can thus club together and nominate one of themselves to conduct such examination for all and report the results thereof, and thereon the investments can be made or rejected as they think best.

§ 39. Careless investments. Those investors in mortgage securities and debenture bonds, whose investments have in a measure proven faulty and sometimes disastrous, can blame themselves to no small extent for being so careless and negligent in selecting their own securities; but of course those offering such securities on the market are primarily at fault, because they have produced the same, and thus created the first probability if not certainty of a disastrous result.

§ 40. Comparison. In all probability not one of these unfortunate investors, however, would invest \$100 in a common work horse without seeing the animal; they would doubtless examine his teeth and eyes, his throat and limbs, and other points where defects are likely to appear; then step back and look the animal over from every point of view; they may repeat some of these operations, and finally hitch up the horse and drive him to a veterinary surgeon and get his opinion before purchasing. Yet some of these same careful investors in some things have invested thousands of dollars in an animal called a first mortgage, or a debenture bond, without making the least examination as to whether the animal was blind, halt or lame; whether he was in good or bad condition, gentle and trustworthy, or balky and ugly; in fact without making any examination whatever to discover any defects which might have been only too apparent, and then are the first to

complain because their investments did not prove reliable and perfectly safe. With human nature constituted as it is to-day, it is very unwise to think an investment can be thus carelessly made in anything from a loaf of bread to a debenture bond, and be relied upon as a desirable one. Speculation may be made on the turn of a coin, but it is not so with a safe investment.

§ 41. Other bonds, etc. Many of the mortgage investment companies and some brokers, for the benefit of those whose small savings will not permit of their making an investment in a mortgage security directly, issue to them what may be called an investment or savings bond, or certificate of stock, indebtedness or deposit as the case may be. The holder of such bond or certificate can pay for the same in one payment down, or can make monthly, quarterly, semi-annual or yearly payments thereon, according to its terms and conditions, and as he may elect when first purchasing the same. The funds thus received from several small investors will in the aggregate be sufficient in amount to enable the company or broker issuing such bonds or certificates to select and make some good first mortgage loan, and if the mortgage security thus taken is not assigned to some trust company, or to the State, as in the case of some building and loan societies, as security for the investments which entered into it, the same is held by the company or broker issuing the bonds and certificates for such purposes.

§ 42. Conditions. The terms and conditions on these bonds and certificates sometimes provide that the moneys paid in thereon are not withdrawable from the hands of the company or broker issuing the same till after the period of one, two, three, and



in some cases five years. Bonds and certificates containing such provisions ought in all fairness to contain a further one, to the effect, that when the holder had paid in a sufficient amount thereon, he could then exchange his bond or certificate, at its full value, for any mortgage security offered by the company or broker he saw fit to select. This would enable the small saver who could lay by only a small amount monthly, or quarterly, etc., as the case may be, as soon as he had saved from \$100 upwards, according to the size of the mortgage loans made, to select a mortgage investment for himself, taking an assignment thereof and possession of all the original documents relating thereto. When such bonds or certificates contain provisions allowing the withdrawal of any or all moneys paid in thereon, on demand, or on sixty days' notice, the same as though the funds had been deposited in a savings bank, the provision in regard to converting them into direct mortgage security, or into a debenture bond, if preferred, is of course unnecessary.

§ 43. **When desirable.** When the business of those issuing such bonds and certificates is properly managed, and is conducted on a conservative basis, and the securities are intelligently and judiciously selected, such bonds and certificates, especially if convertible as above outlined, or if withdrawable on demand, or on sixty days' notice, offer to the small investors fully as, if not a more desirable form of investment, than debenture bonds properly issued and secured offer to the larger investors; because such small investment is practically under the control of the investor, and can be converted into cash, either on demand, or sixty days' notice, or into a direct mortgage security of his own selection, whichever he

pleases. Hence, the principal things to be determined relative to such investments are the responsibility of those issuing such bonds and certificates, and whether the business is in conservative hands, insuring the selection of proper securities.

§ 44. Investigation. These questions can be determined quite satisfactorily as a general thing by making use of the commercial agency reports, and getting the opinions of some of the representative business men and bankers of the community where those issuing such certificates and bonds are located and best known, as to their financial standing, and their reputation for conservativeness in selecting mortgage securities. Such bonds and certificates ought in every case to contain a provision that all the original applications, reports and documents, relating to any loan, into which any part of the funds paid in thereon had been invested, should at all times be subject to the inspection of such investor, and if after such examination, which should be conducted as judiciously and intelligently as has been pointed out with reference to direct mortgage security, the investor is not satisfied, if his bond or certificate is convertible into cash or direct mortgage security, he can exercise his option, and thus protect himself. In this way a number of such investors can club together and appoint one of their number to make such inspection for all and report thereon fully, when such action can be taken as the report justifies.

§ 45. Speculation. It must be distinctly borne in mind that the foregoing suggestions relate only to such bonds and certificates, where the proceeds are to be invested in first mortgage securities. If these proceeds are to be invested in purchasing suburban tracts of land to be platted and sold out in parcels;

or in the erection of buildings, or in the purchase of mineral, timber or grazing lands, or in the building of dams and the construction of water ways for irrigation purposes, etc., the transaction is more in the nature of a speculation than an investment and must be treated accordingly.

## CHAPTER IV.

### GUARANTY.

- § 46. Definition.
- § 47. Debenture and guaranty.
- § 48. Guaranteed securities.
- § 49. Technicalities.
- § 50. Guaranty avoided.
- § 51. Personal guaranty.
- § 52. Advertised guaranty.
- § 53. Proper management.
- § 54. One side.
- § 55. The other side.
- § 56. Generally.
- § 57. What to do.
- § 58. Conclusions.
- § 59. Instructions.

§ 46. Definition. The guaranty of a mortgage security by the broker or corporation offering the same as an investment, as has before been stated, is considered of sufficient importance to be treated under its own title. The definition of guaranty is, that it is a collateral undertaking to pay the debt of another in case he does not pay it. Probably no one, after careful reflection, will deny, that in case of a corporation especially, the value of the guaranty, in several respects, depends much more largely upon the integrity, ability and conservativeness of the managing officers of the company, than would at first glance be naturally supposed.

§ 47. Debenture and guaranty. The principal difference between a corporation's debenture bond and its absolute guaranty of the payment of both principal and interest on a mortgage investment, is that in the first instance, it is the corporation's own promise to pay with the security therefor deposited in

the hands of some third party; whereas, in the second instance, it is in substance an original undertaking on the part of the corporation to pay the debt of the mortgagor in case he does not pay it, with the security therefor in the hands of the investor, who also holds the guaranty; and in either case the liability to pay can be enforced at once on maturity of the debt.

§ 48. **Guaranteed securities.** Brokers or corporations offering to guarantee any mortgage investments they place on the market, do so with the purpose and intention, and unquestionably the natural result of such action is, to create and inspire confidence among investors in the securities so offered, because, as the investor will argue to himself or with another, these people have shown their confidence in the securities by offering to guarantee them; and consequently, not unfrequently investors have made their selection of mortgage investments relying altogether too much upon the guaranty, only to find out, when, by force of circumstances, they have been compelled to attempt an enforcement thereof, that "all that glitters is not gold"; that while the guaranty read very nicely and seemed on its face all that could be desired in that line, yet when submitted to the crucial test of the courts it turned out to be a jug-handle sort of an affair after all.

§ 49. **Technicalities.** In some of the States, if not in many of them, the courts have held that a guaranty of payment and a guaranty of collection are two quite different undertakings on the part of the one doing the guaranteeing. It is not intended, nor is it necessary, for the purposes of this work, to go into the numerous questions which have arisen affecting the subject of guaranty; it is, however, considered important that an investor should know that

a guaranty of payment is generally held to mean what it says; that it is in substance an original undertaking, and the duty of such a guarantor, to pay the debt when it matures, without notice, and having so paid the guaranteed mortgage, the guarantor is entitled to an assignment thereof, and can then proceed against the mortgagor as he pleases, at least so far as the investor is concerned; whereas, a guaranty of collection is generally held to mean that an investor having such a guaranty on his mortgage investment, upon default of payment therein, must himself first proceed against the principal debtor, and exhaust the security so held for the debt, and if he is not able to collect the money he has invested in that way, then he can proceed against the one giving the guaranty of collection for any deficiency.

§ 50. Guaranty avoided. Hence, as a general thing, on an unlimited guaranty of payment, the debt can be collected at once on maturity from the guarantor if responsible; but on a guaranty of collection, the investor must first proceed against the principal debtor and exhaust the security he already holds for the debt, and can then take a bout with the guarantor for any deficiency, and by that time such a guarantor is usually ready for him, for if not then irresponsible he has a defense to the investor's claim for a deficiency, based on the ground of laches on the part of the investor, because he did not timely and thoroughly exhaust the security he held, or because he exhausted it too thoroughly and disposed of it at too great a sacrifice, and therefore, because of the investor's alleged laches, or alleged injudicious handling of the security, which might otherwise have cancelled the debt and so wiped out the guaranty, the guarantor of collection asks to be absolved from his promise to collect.

§ 51. **Personal guaranty.** When investors understand the difference in guaranties, and appreciate their far reaching effects, there will unquestionably be less demand for them and less reliance placed upon them, in making mortgage investments at least probably to the advantage of both investor and guarantor. If a broker or company disposed of a mortgage to Richard Doe and guaranteed the payment of both principal and interest to Mr. Doe without mentioning his assignees, and afterward Doe being in need of some ready funds sold and assigned the mortgage to John Smith, even though it contained a guaranty of payment, it is very questionable whether Mr. Smith, should occasion demand it, could enforce the guaranty, because it is in the nature of a personal matter between Mr. Doe and the guarantor, to which Mr. Smith was not at the time a party.

§ 52. **Advertised guaranty.** When mortgage securities are advertised as guaranteed, from the general understanding of the word, that it is an understanding to pay the debt of another if he does not pay it, investors naturally interpret the guaranty in its broadest and most generally accepted sense; and so, while a personal guaranty to an investor would probably be considered strictly in accordance with such an advertisement, it, nevertheless, contains a restriction, which the investor in all probability did not contemplate and might not be aware of; while a guaranty of collection under such circumstances certainly can amount to nothing else than unfairly taking advantage of an investor's misfortune in not understanding the technicality of the guaranty, for without doubt he has relied upon the advertisement in its broadest sense in selecting a guaranteed invest

ment; and by accepting the same under such circumstances, has shown clearly that he does not understand it rightly.

§ 53. **Proper management.** It is thus quite certain that a company conducting its affairs in that manner as to guaranties, is not properly officered and managed, as no broker or corporation should advertise guaranteed mortgage investments, if the guaranty is intended to be personal or limited to a guaranty of collection. If it is the intention simply to guaranty the collection, advertise it so; it has been shown that such guaranties are as good as many others at one time thought to be better; and very seldom will a broker or company advertise or give a guaranty, which guarantees the payment of interest and the collection of principal, for reasons which must be at once apparent to all. And where a company or broker advertises guaranteed securities and then attempts with an investor intelligently and cautiously seeking an investment, to limit the liability of the guaranty to a personal matter, or to simply a guaranty of collection, such action would serve only to arouse the investor's suspicions, and cause a vigorous examination of both guarantor and security, if not a prompt refusal to have anything further to do with the matter.

§ 54. **One side.** The consideration of the subject of guaranty in connection with mortgage investments should not end with the technical construction of the guaranty, for the bad results, if any, and the far-reaching consequences thereof, have only begun. If a person, particularly a non-resident, investing in a mortgage security demands that it be guaranteed, it is thus certain that he attaches some importance to the guaranty, otherwise he would not



have asked for it. Having thus invested, relying more or less upon the guaranty, if his interest reaches him promptly, is it any wonder that he should fancy himself the possessor of a splendid investment? As time passes and interest is paid when due, with funds accumulating in his hands, he makes other investments and demands other guaranties; perhaps the first investments are paid when due, or are renewed, and so in a comparatively short time the investor has unconsciously come to look upon the guaranty, regardless of its construction many times, as the principal feature of his investment.

§ 55. The other side. Now let us look for a moment at the other side of these investments and see what has been going on there in some instances; for, from the information which reaches the public after the effects of a broker or company, whose business has not been judiciously selected or wisely conducted, has passed into the hands of an assignee or receiver, it has been ascertained in some cases at least, that the interest, and possibly the principal in some instances, has been regularly advanced to investors because of guaranties and accommodations, and as a consequence, among the assets turned over to the person settling up the affairs of such defunct institution, appear such more or less valuable accounts, as "Interest advanced and uncollected," or "Principal paid to investors and uncollected," "Taxes advanced and uncollected," etc. It is fortunate for debenture bond holders of such an institution, if some of these assets have not been twisted around so as to be used as a basis for debentures, in order to obtain funds to tide along with, till collections can be made; but unfortunately "the tide which taken at its ebb leads on to success" is persistently going the other way. The

fault is too far back in the injudicious selection of the securities to be remedied at this late day. To investors holding the mortgage securities thus negotiated it is immaterial what the form of the guaranty is now; they must each look to their own security henceforth, and all those who did not do so in the beginning are now ready to condemn anything and everything that may be offered to them in the shape of a mortgage investment.

§ 56. Generally. The two foregoing pictures go to illustrate what might be, and possibly what has been, done in a comparatively few instances; for it must be remembered that the mortgage investment business has assumed enormous proportions, and today affords a field of investment for vast amounts of capital, and the fact that, compared with the total number of such investments so comparatively few have resulted in losses, establishes conclusively, that the vast bulk of the business is managed by men of integrity, ability and conservativeness, whether acting individually, or as officers of corporations. The nature of the business leads to the idea that there should be no losses, and unquestionably the losses should be considerably less than they have been currently reported in the immediate past. An investment in mortgage securities should not be treated as a speculation, and when investors select their securities intelligently and judiciously, much cause for complaint will be removed, and perhaps the so-called business of some engaged in negotiating such investments will be not a little impaired. It is submitted in all fairness, that a broker or company, making any advances to its investors, either on account of a guaranty or for an investor's accommodation, should frankly state with such remittance, that the

same had been so advanced; and in case such company or broker does not so advise the investor the following suggestions will be found worthy of some consideration it is believed.

§. 57. **What to do.** Any person, and particularly a non-resident, who invests in a mortgage security, whether guaranteed or not, and who receives his interest promptly, no matter whether he has given any attention to its collection or not, naturally feels that he has a desirable investment and consequently takes a passive rather than an active interest in the details of looking after it. When the interest coupon is about due it should be sent forward for collection to those through whom the investment was made, for as a general thing it was a part of their agreement when disposing of the security, that they would attend to the collection of the interest and principal without expense to the investor; then too the borrower, or his successor, naturally expects to pay both interest and principal where the loan was obtained. Of course the coupon can be sent to others if desired. At any rate wherever sent and whether guaranteed or not, it will take but a minute or two and cost but one cent to address the borrower a postal; tell him where he will find the coupon, when it is due, and ask him to pay it promptly; and if he cannot pay it then, ask him to write stating how much time is wanted; also ask him, if he has sold the premises, kindly to hand the postal to the purchaser to answer, and to give you the purchaser's name and address. Always keep track of the owner of the security, his name and address, and keep the memorandum where it can be plainly seen.

§ 58. **Conclusions.** If the interest or principal, as the case may be, is received promptly, and if at the

same time the owner has asked for an extension, it is self-evident that the same has been paid to the investor because guaranteed; and if there was no guaranty, then it has been advanced to him for his accommodation, if indeed it cannot be said to be for the purpose of inspiring or retaining his confidence, in both instances by those negotiating the securities, as no one else has a sufficient interest in the matter to pay another's debt as a general thing. It is thus easy for an investor who keeps any track of his investments at all to ascertain whether either interest or principal is being advanced because of a guaranty or for his accommodation; and if he finds that it is being so advanced, it is self-evident that assets more or less valuable are accumulating on the hands of those making such advances, under the suggestive title of "Interest advanced and uncollected" or "Principal advanced and not paid," etc. Knowing of the accumulation of such assets in his own case, it is quite reasonable the same is true in others, and such an investor need not be told that further investments in that quarter, especially upon the strength of a guaranty, would scarcely be considered desirable except that the securities are examined with great care and taken only after thorough inspection.

§ 59. Instructions. Sometimes a borrower, and more especially a subsequent purchaser of the property, if he knows the name and address of the investor, who holds the mortgage on the premises, when such mortgage is about due, or if he desires a loan on some other property, will write directly to the investor to obtain it. Of course the borrower's object is to avoid the payment of commissions to the broker or company through whom the loan was formerly obtained. Now if the investor is satisfied

with the manner in which this broker or company has attended to his investments in the past, making and remitting collections without expense to him etc., he should not under any circumstances aid or abet the borrower in any such scheme. The investor should always promptly forward such a letter to his company or broker, instructing them fully as to what he is willing to do in the matter, and should also at the same time write to the borrower and tell him where he can find these instructions, and to go there and transact the business. An investor who attempts to deal with the borrower directly under such circumstances is acting against his own interests in every case, and must not expect his company or broker to attend to such collections without being paid for their services. When investors will insist upon such borrowers transacting their business with the company or broker whose services have proven satisfactory, they will find such company or broker more willing to aid them in keeping track of their investments, especially in regard to the name and address of the owner of the security.

## CHAPTER V.

### MORTGAGE PAPERS.

- § 60. How suggested.
- § 61. The mortgage.
- § 62. The mortgage note.
- § 63. The abstract or title insurance.
- § 64. The assignment.
- § 65. Execution of papers.
- § 66. Fire insurance.
- § 67. Taxes.
- § 68. Evidences of investment.
- § 69. Rate. Western investments.

§ 60. **How suggested.** While the principal subjects in respect to which this work was undertaken have been disposed of, it is thought nevertheless, that a few suggestions relative to the legal documents evidencing the investment would not be considered out of place. The mortgage blanks in use among brokers and corporations generally are much the same in form and substance, and if investors could in all other respects be as sure of a safe investment, as the mortgagors are sure of being bound down by iron clad conditions in the mortgages, many of the valuable articles appearing in the financial and some of the daily papers relating to the subject of first mortgage investments, especially in the Western States would have been left unwritten if not unthought of; there would have appeared nothing to suggest the desirability of a work of this kind, and its utility would have been a question to be seriously doubted.

§ 61. **The mortgage.** In addition to the usual description of the parties, of the real estate and of the note, and in addition to the usual covenants and warranty, the mortgage should contain provisions

that the borrower will pay all taxes levied on the premises before the same become delinquent; that he will pay all fire insurance premiums necessary to keep the improvements properly insured, with loss, if any, payable to the mortgagee or assigns, as their interest may appear, and that in case of foreclosure he will pay a specified sum as attorney's fees, besides the other costs of foreclosure; and in case he fails to pay taxes or insurance, the mortgagee or assigns can do so and collect the amounts so paid out, with interest from the date of payment at the same rate as the principal debt draws; and can foreclose the mortgage for any default in the payment of principal, interest, taxes, insurance, etc., declare the entire debt due on demand, and collect all sums advanced for taxes and insurance with interest thereon, together with attorney's fees besides costs of foreclosure, in the same manner as the principal debt and interest is collected.

§ 62. **The mortgage note.** The mortgage note of the general form in every day use with interest coupons attached contains all the essential features usually required. This note as well as the coupons should be signed by both husband and wife, if the borrower is married, though if signed by the one in whose name the legal title stands of record it will be sufficient. The note and coupons should be made payable at some appointed place, with exchange on New York, and some investors desire to have both principal and interest payable in gold coin, or its equivalent, of the present standard of weight and fineness.

§ 63. **Abstract or title insurance.** Unless the title to the premises mortgaged is insured, and the policy assigned to the mortgagee or assigns, the abstract

of title should be brought down beyond the filing of the mortgage, and should be examined by a competent and responsible attorney, who should attach his certificate thereto showing that he had examined the same and the original records; that the borrower had a perfect title thereto in fee simple, and that the mortgage was a first lien. With such title insurance or abstract brought down and certified to an investor can safely rely upon his investment being what it purports to be—a first mortgage security.

§ 64. **The assignment.** When a mortgage is selected from a list and paid for by an investor, and frequently in other cases, such an investment is made over to him by a written assignment, usually under seal, witnessed and acknowledged. This instrument is generally plainly marked "Assignment," and contains a certificate showing it should be recorded. By looking at the mortgage a similar certificate will be found thereon, and this certificate will show an investor where the assignment should be filed. If those through whom the investment was made do not forward with this assignment a certificate of its record, or an envelope addressed to the Register or Recorder where it should be filed, the investor should address one and forward it himself. The fee for recording it will vary from fifty cents to one dollar. It is not absolutely necessary that this instrument should be recorded, the investor having possession of the mortgage and note, but if it is, any possible future questions will be eliminated, as a rule. The assignment will be promptly returned after being copied into the records.

§ 65. **Execution of papers.** No attempt will be made to show how the mortgage should be executed in the different States, the number of witnesses re-



quired, form of acknowledgement, etc., as these details, as well as the examination of titles, and generally the preparation of the mortgage papers, are entrusted to competent and responsible attorneys, and the fact that not the slightest question has ever been heard from investors because of defective papers or titles, is a most flattering testimonial of the accuracy and reliability with which these gentlemen have performed the part of the work entrusted to them, and shows conclusively to a careful investor, that a much more extended use of their services, in connection with mortgage investments, would be of corresponding advantage to investors generally.

§ 66. **Fire insurance.** All fire insurance policies on the improvements should be assigned as collateral to the loan, and should contain subrogation clauses, making loss, if any, payable to the mortgagee or assigns, as their interest may appear; and an investor having such policy should keep track of the date when the same expires, so that he may see to the renewal thereof in due season, in case the same is overlooked by the borrower or insurance agent.

§ 67. **Taxes.** Once each year an investor should address a letter to the County Treasurer of the county where the premises are situated, describing them and giving the name of the owner, and ask the treasurer if the taxes have been paid; always enclose an addressed postal card or two-cent stamp to insure a prompt reply. It is not necessary to know the name of the treasurer; if the letter is addressed "County Treasurer," giving the name of the county seat and State, it will be found sufficient. If the taxes have not been paid write to the borrower and to the broker or company and have the matter attended to at once, and duplicate tax receipt forwarded.

§ 68. **Evidences of investment.** Hence, with an investment in mortgage securities, intelligently and judiciously selected, an investor will have the application with photograph attached and certified to, sketch of plans, appraisals, references and what they say, special reports verifying application and appraisals, map and diagram showing location of security and other comparable properties, the mortgage, the mortgage note and assignment, fire insurance policies with subrogation clauses, guaranty of payment of both principal and interest, if guaranteed, and either title insurance or abstract of title properly extended, with attorney's certificate attached. He thus has under his own control every evidence of a prime investment, and the wherewithal to convince most any person seeking a mortgage security of the desirability of this particular one. The advantage of having all this information about the mortgage investment, and full corroboration thereof, will always be found of more value than it has cost in time and labor and money expended therefor, either in enabling the investor to select it judiciously, or to dispose of it advantageously, should he at any time desire so to do.

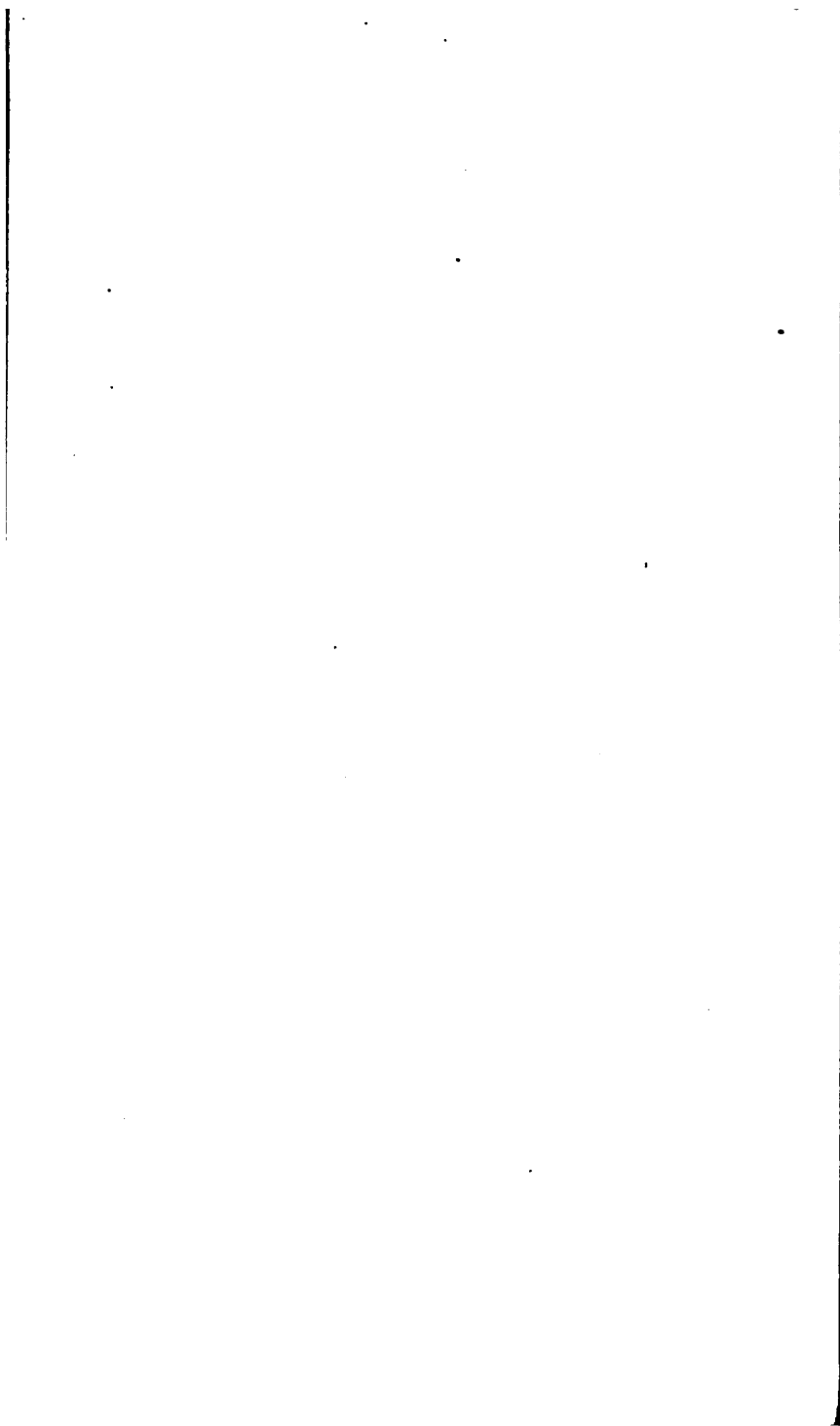
§ 69. **Rate. Western investments.** A fact worthy of remembrance is that the law of supply and demand regulates the price of any commodity, and that this rule is equally as true of interest on money as of any other marketable product. Accordingly, investors must not forget that with higher rates of interest they must expect lower margins of security, and with higher margins of security a lower rate of interest.

"There are good mortgages and there are bad mortgages, but as compared with almost any other

investment, there is no safer, better security for money in all that makes an investment desirable than a first mortgage on a Western farm, or on realty in a growing Western city, when properly placed.—(*United States Investor*, February 27, 1890)

*Finis.*

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